Report of Director of Resources

Report to Corporate Governance and Audit Committee

Date: 27 March 2012

Subject: Risk-based verification policy

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	☐ Yes	☒ No
Are there implications for equality and diversity and cohesion and integration?	☐ Yes	☒ No
Is the decision eligible for Call-In?	☐ Yes	☒ No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: 7 Appendix number: 1, 2	☒ Yes	☐ No

Summary of main issues

1.	Following successful pilots which included Leeds; the Department for Works and Pensions (DWP) have announced that risk-based verification used in the administration of Housing and Council Tax benefit claims will be extended to all participating local authorities from 1 April 2012.

2.	The risk-based verification Policy is submitted to the Council's Audit and Governance Committee for comment in advance of the Section 151 Officer approval of the Policy. Appendix 1

Recommendations

The pilot findings demonstrate that a risk-based verification scheme minimises the administrative requirements on low risk claims without compromising the security of the benefits system. Resource that is freed up from the streamlined approach is targeted on claims where a higher level of verification activity is required. New claims where the risk of fraud and error is low are still subject to basic verification checks and are processed much faster than before. These claims are incorporated in the Housing Benefits interventions programme of work to ensure that the Housing Benefits gateway remains secure.

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1. Purpose of this report

1.1 This report outlines the proposed changes to the verification of Housing and Council Tax benefit claims by introducing a risk-based verification scheme. The assessment of Housing and Council Tax Benefit has not changed. What has changed is the level of verification activity that is a risk-based approach.

2 Background information

2.1 The Leeds Housing and Council tax benefit caseload is 85,353 and expenditure is in excess of £300 million. Since June 2011 the Benefits service has been operating a risk-based verification pilot in new housing and council tax benefit claims that moves away from prescriptive verification processes. For many years all new claims undertook the same level of verification requirements.

2.2 Risk-based verification is a method of applying different levels of verification checks to Housing and Council Tax Benefit claims according to the risk associated with these claims. This risk-based approach allows for verification activity to be targeted towards checking those claims at higher risk of fraud and/or error. Resource that has been freed up from the streamlined approach to low risk claims can be focused on these high risk claims.

2.3 The risk models used in the DWP research were developed over a two year period to accurately and consistently differentiate claims across three categories of low, medium and high risk and were subject to rigorous statistical evaluation.

2.4 As reduced verification is already practiced on claims administered in Jobcentres and the Pension Disability and Carers Service the DWP allowed local authorities to pilot risk-based verification in Housing and Council Tax benefit claims. It is the DWP intention for risk-based verification to be applied to Universal Credit claims.

2.5 In Housing Benefit administration local authorities have to take into account Housing Benefit Regulation 86 and Council Tax Benefit Regulation 72 when verifying claims. The Regulations state:

"a person who makes a claim shall furnish such certificates, documents, information and evidence in connection with the claim as may reasonably be required by the relevant authority in order to determine that person's entitlement to and shall do so within one month of being required to do so or such longer period as the relevant authority may consider reasonable."

2.6 The Audit instructions require auditors to audit against the Verification Framework standards unless the Council has adopted a risk-based verification policy. In these instances auditors will audit the grant claim against the Council's policy. Provided the auditors find that the Council adheres to its own policy, subsidy will be claimed at the normal rate of 100%.

3 **Main issues**

Risk- based verification

3.1 Risk- based verification assigns a risk rating to each housing and council tax benefit claim which determines the level of verification activity required. The risk profile will specify the level of verification required but there is nothing to stop more in individual cases.

3.2 Once the risk group category is identified individual claims cannot be downgraded by the benefits officer to a lower risk group. However, a claim can be upgraded if the benefits officer has valid reason to think this is appropriate.

3.3 Where the level of verification is low risk these claims can be processed much faster than before and with significantly reduced effort from benefit officers without increasing the risk of error.

3.4 Where the level of verification activity is rated as medium risk these claims continue to be verified to the current verification framework requirements which means the submission of full evidence of circumstances with all new claims supported by original documents.

3.5 Risk-based verification allows for verification activity to be targeted towards checking those claims at higher risk of fraud and/or error. Where the verification activity is rated as high risk these claims are subject to a higher level of verification check and are verified to the current verification framework requirements which means the submission of full evidence of circumstances with all new claims supported by original documents.

Risk profiles

3.6 To risk profile housing and council tax benefit claims the DWP allowed local authorities to either source an IT solution or use a clerical system. The Leeds pilot trialled an IT solution recognised by the DWP as an effective risk-based verification solution.

3.7 The software system is an established product that risk profiles housing and council tax benefit claims. The product is an impartial software tool which assesses against a number of components to classify the claim into one of the three categories of low, medium and high. The solution is known as a propensity solution and analyses data and claims from many local authorities to identify the propensity for fraud and error is a claim. The system processes hundreds of risk-based verification requests every day for local authorities that use this.

3.8 Risk profiles Appendix 2.

3.9 Pilot findings

3.10 Over the last nine months the pilot has been operating in Leeds over 24,000 housing and council tax benefit claims have been assessed and risk scored.

3.11 The Leeds findings meet the DWP expectations (refer to table 3.13) with more error detected in high risk claims than medium and more error detected in medium than low risk. To ensure the effectiveness of the risk profiles the system is rigorously checked through a series of blind sampling which involves a number of cases that would normally fall as low and medium risk being placed into medium and high risk so that additional verification activity is undertaken. The blind samples are undertaken without the Benefit Officers being aware and are therefore treated as any other medium and high risk claims. Where claim errors are detected from this blind sample these results are used to refine the risk profiles to ensure that new claims are being appropriately rated.

3.12 DWP expect local authorities risk profile (table 3.13) to be no more than 55% of new claims to be in low risk. Leeds is currently at 54%. The DWP expect the remaining 45% to be medium/high risk with 25% expected as medium and 20% in high risk. Leeds is currently reporting 33% in medium and 13% in high. We are working with the software provider to ensure the risk profile is redistributed to ensure a high number of high risk claims reported.

3.13 The pilot findings are:

Risk profile	Number of claims assessed	Risk profile distribution %	Verification errors detected and %
Low risk	13,506	54%	Errors detected 132 (1.0%)
Medium risk	6,878	33%	Errors detected 165 (2.4%)
High risk	3,912	13%	Errors detected 237 (6.1%)
Total	24,296	100%	Total 534 (2.2%)

3.14 <u>Performance monitoring</u>

3.15 The DWP expect local authorities that participate in risk based verification to set a robust baseline in which to record the impact of risk-based verification. The DWP guidelines allow local authorities to establish their own baseline for the level of fraud and error. Although the DWP suggests that councils use baseline data relating to their use of the Verification Framework, this is an unreliable and out of date measure because of inconsistency in recording the outcome and the fact that the service has been using the risk-based solution since June 2011. Leeds claim error detection is currently 2.2% whilst the error detection rate from the blind sampling is 2.6%. It is intended therefore to use the higher 2.6% figure as the baseline to measure the ongoing effectiveness of the risk-based solution.

3.16 Risk-based verification activity will be monitored and reported monthly in line with DWP expectations.

Scheme security

3.17 The scheme security does not rely exclusively on risk-based verification as the local authority also actively searches for likely cases of fraud and error amongst live claims by using the Housing Benefit Matching Service (HBMS). Legislation permits the DWP and other government services to supply information on claims to local authorities so that they might prevent, detect and investigate fraudulent and erroneous claims, and prosecute cases of fraud.

3.18   The DWP has increased the amount of information sent to local authorities through the Automatic Transfer to Local Authorities Solution (ATLAS). ATLAS sends information to Councils where there is a new DWP or tax credit award or a change of award and the customer is also in receipt of housing and council tax benefit.   Receiving information automatically from the DWP ensures that claims are kept up to date and helps reduce the value of overpayments and underpayments, in particular where the customer fails to notify the Council of the claim or change, or provides the information late.

3.19   The Service also undertakes an interventions programme that targets both predicted changes and a risk based programme of activity which is undertaken through postal and home visiting activity to identify undeclared changes. Intervention activity is targeted on low risk claims and the findings on cases intervened demonstrate the risk profile to be correct with no error reported.

4   **Corporate Considerations**

4.1   **Consultation and Engagement**

4.1.1   This report is seeking the views of the Corporate Governance and Audit Committee in relation to the Policy. Discussions have also taken place with the Revenues and Benefits Chief Officer and managers in the Benefits Service.

4.2   **Equality and Diversity / Cohesion and Integration**

4.2.1   Risk- based verification assigns a risk rating to each housing and council tax benefit claim which determines the level of verification required. When a risk rating is assigned no account is taken of ethnicity, gender, religion etc in determining the level of verification required. Risk- based verification therefore does not have any direct equality and diversity/cohesion and integration issues, as all cases are treated the same.

4.3   **Council policies and City Priorities**

4.3.1   This report does not impact on council policies and city priorities.

4.4   **Resources and value for money**

4.4.1   Risk-based verification is a solution to help minimise administrative requirements on low risk cases but without compromising the security of the claims processed. Resource that has been freed up from the streamlined approach to low risk claims can be focused on the high risk claims. Where the level of verification is low risk these claims can be processed much faster than before and with significantly reduced effort from Benefit Officers.

4.5   **Legal Implications, Access to Information and Call In**

4.5.1   The information in Appendix 1 and 2 of this report has been identified as exempt under access to information procedure rules 7 because the information provided can relate to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime. The information is exempt as the public

interest in maintaining the exemption outweighs the public interest in disclosing the information.

4.5.2 There are no other legal or call-in issues arising from this report.

4.6   Risk Management

4.6.1 The key risk of operating risk-based verification in Leeds is that of the annual subsidy claim as risk- based verification will be the main basis for the subsidy claim audit. Risks however, will be mitigated by regular performance reports and quality assurance checks.

5.   Conclusions

5.1 Overall the pilot findings demonstrate that targeting claims through risk-based Verification is the right approach as resources have been freed up from the Streamlined approach to allow more focus to detect claim error in the medium and high risk claims.

6.0   Recommendations

6.1 The recommendation is for the Audit and Governance Committee to consider the report in advance of the Council's Section 151 Officer approving the Policy.

7.0   Background documents[1]

Appendix 1. Risk-based verification Policy and Procedure
Appendix 2. Risk profile

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[1] The background documents listed in this section are available for inspection on request for a period of four years following the date of the relevant meeting. Accordingly this list does not include documents containing exempt or confidential information, or any published works. Requests to inspect any background documents should be submitted to the report author.